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DER UNBEHAGEN DER MARXISTEN. CRISIS, FINANCE, AND THE FALLING RATE OF PROFIT

ECONOFICTION CAPITAL, CRISES, FALLING RATE OF PROFIT, FINANCE, MARX, MARXISM

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Nichts ist schwerer und nichts erfordert mehr Charakter, als sich in offenem Gegensatz zu seiner Zeit zu befinden und laut zu sagen: Nein.
– Tucholsky

Zu sagen was ist, bleibt die revolutionärste Tat.
– Luxemburg

I'll begin by paraphrasing George Bernard Shaw: many popular things are said about the economy, and many true things. However, what is popular is untrue, and what is true is unpopular. To put it another way, any economic truth will offend somebody, and some will offend almost everybody.

Yet as Rosa Luxemburg said the most revolutionary action is to say what is.

I'm therefore going to say some unpopular things which, I believe, have been proven true. You can decide if you agree after reading the papers in which the evidence and argument is presented. I cite these at the end. Some are not yet published, but write me and I'll send a prepublication text.

You may choose to ignore these claims if they don't accord with your way of thinking. There are many denial strategies to help you: you can dismiss them as absurd or irrelevant; you may use the ad hominem technique of ridiculing the authors. You can incite others to gang up against them, or you can simply pretend they don't exist.

Or, like Marx, you can recognise that knowledge proceeds through contradiction and disagreement, so your time is better spent arguing with your opponents than agreeing with your friends.

In short, the task of Marxism, in the spirit of Marx, is to re-learn the art of disagreement. In that spirit, I begin with some pugnacious statements which I hope will disturb you. If not, I shall have failed.

My first such statement: there is no such thing as underconsumption, and no such thing as overproduction.

To speak meaningfully of them obliges us to say 'under, or over what'. But there is no 'what' to be under or over, because if there were, Say's Law would be true: this 'what' can only be conceived of as a 'natural' self-reproducing state of the economy. We cannot use such terms without presupposing that the economy has an equilibrium state.

It does not, either in theory or in reality. Capitalist history is marked by alternating periods of rise and crash occurring every 7-10 years since 1805. It is also marked by feverish booms or golden ages 15-20 years long, such as the postwar expansion, which alternate with prolonged stagnations like the current Long Depression, which dates back to 1974 and is now the longest in capitalist history.

Nor can these long alternations be called 'cycles' or 'waves' any more than the movement of a wandering drunk who falls over and gets up again. Every long boom, as Trotsky insisted, Kondratieff denied, and Schumpeter ignored, was kicked off by conscious human action in which the 'normal operation of the market was suspended. In some imperialism, fascism, and war predominated; in others, revolution.
The task now facing humanity is to choose between these alternative exits from the present crisis.

Crisis can never therefore be studied in abstraction from classes, nations and their actions. In short it requires not 'pure' economics but political economy and indeed, as Radhika Desai terms it, geopolitical economy. Marx's 'law of motion' of capitalism expresses not the alienated and reified movement of stock indices and prices, but the real movement of great masses of people, whose activities are concealed and fetished by the commodity relation except, precisely, in crisis, when the hidden hand becomes visible.

The question therefore always boils down to the question 'what should be done?' and the equally salient question 'which class should do it, and by what means?'

This provides the most fundamental objection to the concepts of underconsumption and overproduction: the only political actions that can set them at a self-reproducing level are those that bring them within the domain of free human choice, by overriding the investment mechanism itself – which lies at the heart of crisis.

This theoretical claim is confirmed by two empirical facts: the failure of radical Latin American governments to rebuild their economies merely by raising the living standard of the poor, and the success of Chinese socialism.

My next unpopular statements: inequality does not cause crisis, and crisis will not be overcome by ending it. Should this seem heartless, I must stress that it is socially, morally and politically essential to battle against it. However, this fight will not fix the economy and could not even do so by succeeding. It is needed to create the material basis for the actual change required: a unified organisation of all the non-exploiting classes empowering them to take the next, truly difficult step: to override the investment mechanism, provoking the intransigent and bloody resistance of the propertied classes.

Another unpopular truth: if we pretend that economic success can be achieved otherwise, we tell a great lie. If people listen to us, we will cause them great unnecessary suffering. The pursuit of true theory is thus a moral, not a self-indulgent duty. In a word, theory is too important to leave to the theorists.

Hence my next statement, particularly unpopular among Marxists: Marx's own conclusion, that the ultimate cause of crisis is the falling rate of profit, has become so uncomfortable for them that most, sadly, would do almost anything rather than admit it, and far too many have spent their lives trying to disprove it.

This brings me to the seventh statement, which I have found especially unpopular among Marxists: we cannot make sense either of crisis, or Marx's theory of the rate of profit, in abstraction from Marx's concept of finance. Specifically, money is capital. This may seem obvious thus stated, but it is absent from almost all Marxist writing on the profit rate.

But crisis consists, precisely, of the accumulation of money capital in the place of productive capital. Of course, therefore, if one denies that money -including monetised debt – functions as capital, then one will be mystified by the course of the profit rate and its effect on investment.

For Marx, money has what he terms a 'second use value' as capital; in this capacity, it functions just like productive capital in one respect but its opposite in another. This contradiction lies at the heart of crisis.

Therefore, controversially, we have to recognise that both money, and monetary instruments, enter into the formation of the rate of profit. This includes everything Marx termed 'fictitious capital' – bonds, equities, real estate, all monetised debt, football teams, and most collectible properties – artworks, stamps, carpets, fine wines and fashion, to name but a few.

It then emerges that the rate of profit in the advanced countries – notably the US and the UK – has fallen more or less continuously, in fact exponentially with an R2 of .95 or greater, since the mid-1950s.

This is not a dogma; it is a fact. The task of theory is to explain it. Dogma is when we continue to respect theorems, such as that of Okishio which claims to show that it cannot happen, nor the claim of writers such as Harvey or Heinrich, that it cannot happen as Marx stated. It does happen, and Marx does explain it. This is not to disrespect them but simply to point out that their theory does not explain reality and their interpretation does not explain Marx.

This has a moral dimension. It is rightly said that no force is more powerful than an idea whose time has come. To this we should add that there is no force more dangerous than an idea whose time has gone.

The cause of the short-cycle is in fact simple – another assertion unpopular with many Marxists – if we recognise that debt, in developed capitalism, functions as capital provided we recognise one further fact equally unpopular with Marxists: the profit rate does not equalise. The return on capital, as Marx never ceases to stress, is a distribution of rates around the average – some higher, some lower. The real motor of capitalism is the pursuit of a surplus-profit, a profit higher than the average. Leave this out of account and one no longer describes anything that actually exists, or even could exist.

There is likewise a distribution of rates of return in the financial and money markets. The matter is now extremely clear: the lower the average, the more capitals will find they can secure a higher return by accumulating idle assets than by throwing their money back into production. Capital therefore accumulates as money; 'financialization' is a product of the falling rate of profit, not an alternative explanation of crisis.

According to any equilibrium or Say's Law theory this is not even possible, because money does not exist in such systems: it is a 'veil'. In reality, capital accumulates in two forms: the productive and the money form. All those monetary instruments that seek a return on capital – that is, those traded in the money markets – bear down on the general rate by increasing the denominator, whilst adding nothing to the numerator.

Time does not allow me to explain the next slide, that illustrates this point, but I will include it in the text and if anyone is kind enough to ask me to explain it, I can do so. Hopefully, it is in at least some respects self-evident.

Monetary instruments accumulate to such an extent that, in Britain since 1987, capital has purchased more financial assets than it has productive assets. At the same time and as a consequence, idle capacity increases secularly – the most evident expression of prolonged stagnation.

This is not overaccumulation, nor is it overproduction. The capital is indeed accumulated; it is simply not accumulated in production.
One further point is not so much unpopular as difficult. The stream of revenue to which these assets are entitled includes the simple increase in their price, caused by the thirst to acquire these assets. We can see this in operation in the bitcoin market.

This leads to the classical over-inflation of financial assets that precedes every crash. The additional yield is not self-sustaining and inflates the price of financial assets well above the level that corresponds either to the stream of revenue to which they are legally entitled, or indeed the pool of revenue on which they can draw. This is disguised by the fact that value is disguised by its monetary expression, which accounts for the apparent 'irrationality' of financial markets.

It therefore ends, characteristically, in a crash. But the crash is not produced by the financial accumulation but by the absence of outlets for productive investment. It cannot therefore be cured by a so-called 'slaughter of the values' which devalues only the financial assets, not the underlying commodity values in the economy and most importantly, not the capital tied up in production itself.

The crash does not resolve the problem; what about the counter-measures – stimulus, and so on? Of course, these make things 'less bad' and so should be supported, but they do not cure the malady. The crisis does not liquidate real capital – that which is tied up in past purchases of instruments of production, and whose accumulation is responsible for lowering the general rate.

Only one thing can prevent the crisis and that is to take over the investment function, remove it from the sphere of private decisions about this 'second use' of capital: that is to say, to override one of the most fundamental rights of capitalist property.

Now we can finish on one point that illustrates the real, practical dilemma facing humanity. It is not of course the case that the profit rate falls indefinitely and necessarily. This positivist fallacy is as childish, as Marx would probably have said, as the claim that it cannot fall at all.

We know the profit rate falls, because we can see it. But we also know it can be restored, because on definite historical occasions, it has been: in particular 1893 with the onset of imperialism, and 1942 under the impact of fascism and war.

The issue is thus under which circumstances it is restored. On this, there are three great views. That of Schumpeter is that no action is required, and the economy will restore itself. Suffice it to say that we've waited since 1974 and, pace Dumenil, Social Structures of Accumulation and World Systems theory, it shows no signs of restoration whatsoever. The second is that of the Keynesians, though not Keynes, that a demand stimulus is sufficient; the Long Depression however started precisely at the height of demand management. Then we have the conclusion of Marx, Trotsky and incidentally Keynes himself that it can be overcome only through the 'socialisation of investment and the euthanasia of the rentier'.

The question then is, how may this itself be secured. History suggests it requires great, revolutionary or counter-revolutionary events – a conclusion Keynes shied away from, but Marx acknowledged.

The choice is thus, as Luxemburg reminds us, whether these 'great events' lead in the direction of socialism, or into barbarism.
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